

Meeting Minutes
South Dakota Department of Labor
Employees' Retirement Board Meeting
Kneip Building, Conference Room 3
Thursday, June 02, 2016 at 10 a.m. (CDT)

The South Dakota Department of Labor Employees' Retirement Board (ERB) met on June 02, 2016, with DDN locations in Aberdeen, Rapid City, Watertown, and Sioux Falls.

Members Present: Bob Riter, Jason Dilges, Marcia Hultman, Mike O'Brien, and Jim Reeve

Present in Pierre DDN: Emily Ward, Tom Hart, Derek Gustafson, Dawn Dovre, Paula Zellmer, David Fee, and Michael de Leon

Present at Sioux Falls DDN: Greg Johnson, Amber Mulder, Dale Bendewald, and Darla Bockorny

Present at Aberdeen DDN: Sharon Schnabel, Betty Likness, Cindy Herr, Sharmie Jensen, Steve Craig, Deb Gardner, and Kathie Volk

Present at Rapid City DDN: Marcia Miller and Dennis Coull

Present at Watertown DDN: None

Chairman Riter called the meeting to order, and roll call was taken by Derek Gustafson.

June 15, 2015 Meeting Minutes: Jason Dilges MOVED to approve the minutes for the June 15, 2015 ERB meeting and was SECONDED by Mike O'Brien. MOTION CARRIED.

Opening Remarks: Secretary Hultman welcomed Jim Reeve as the newly elected Board member. Jim most recently worked in the Bureau of Information and Telecommunications in Aberdeen and has been happily retired for five years. Mike O'Brien was re-elected to the Board. Both Board members will serve a four year term (July 1, 2015 to June 30, 2019).

Secretary Hultman announced Kathie Volk will be retiring June 30, 2016. Kathie has 42 years of service with the State of South Dakota. Kathie has been a valuable asset to members of the plan and will be greatly missed. The Board and plan members thank you greatly.

Business: Deloitte – Michael de Leon

Actuarial Report:

The plan's assets exceeded the plan's liabilities as of July 1, 2015 by \$0.8 million. The plan's asset returns were below what was expected and resulted in a \$2.3 million increase in liabilities. A change in the mortality assumption table resulted in a \$1.5 million decrease in liabilities. The COLA assumptions resulted in a \$0.4 million decrease in liabilities.

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Updated Mortality Assumption:

The Retirement Plan Experience Committee (RPEC) of the Society of Actuaries released a Mortality Improvement Scale MP-2015 as an update to Scale MP-2014 in October 2015. The MP-2015 scale includes two additional years (2010 and 2011), which resulted in a decrease in the mortality rate. Deloitte has adopted the new MP-2015 scale resulting in a \$1.5 million decrease in liabilities. Deloitte's goal is to keep their mortality table and the RPEC's mortality table as close as possible because they expect most insurance companies selling annuities will adopt the most recent recommendation from RPEC.

Annual Stochastic Projections:

Deloitte's stochastic analysis uses Principal's asset performance projections, which expects an annual return rate of 6.23% each year. Deloitte uses the asset balance as of April 2016 (\$56.1 million). Assuming an annuity purchase rate of 5.0% and earning the expected rate of return, the plan would be able to purchase annuities with a 3.5% guarantee COLA by 2030 (14 years).

Principal – Paula Zellmer and David Fee

Plan Analysis and Trends as of March 31, 2015: Ending balance as of April 30, 2016, for the portfolio was \$56,281,937. Total portfolio year-to-date (July 1, 2015 – April 30, 2016) was -1.16%. Principal lowered the expected annual return rate from 6.5% to 6.23%. While the year-to-date return is well below the 6.23% benchmark, Principal recommends we continue using the current portfolio managers.

Principal noted that as we get closer to purchasing annuities, one option the Board could consider would be to switch to an index portfolio. An index portfolio would be a passive management strategy with a goal of mirroring the index's performance. This strategy would be less expensive to manage.

Summary of Services: Principal has provided education tools for members including, "How to Read Your Pension Plan Statement" and "Pension Plan Payment Options." The Department of Labor Employee's Retirement Board website is in the process of being renovated with a new design. Principal education tools will be included along with other pertinent information.

Board Discussion on COLA Rate Approval: Mr. Dilges noted how the current methodology of adopting a COLA which keeps the plan at 100% funded does not allow for the plan to grow beyond to 100% funded. This makes it difficult for the plan to grow its investments to a point where annuities can be purchased. Secretary Hultman expressed the plan's previous goal of eventually purchasing annuities, but suggested the Department and Board members discuss the plan's goals with the retirees then meet with the Board again.

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Board Vote

July 1, 2015 COLA Award: Mike O'Brien MOTIONED to not approve the 1.3% COLA and was SECONDED by Jim Reeve. MOTIONED CARRIED.

Board Report to the Retirement Laws Committee: Emily Ward presented a draft letter to send to the State Retirement Laws Committee. South Dakota Codified Law 61-2-15.2 requires an annual report to this committee. The Board unanimously approved the letter.

Election of Officers: Mike O'Brien MOVED to elect Bob Riter as Chair and was SECONDED by Marcia Hultman. MOTION CARRIED.

Marcia Hultman MOVED to elect Mike O'Brien as Vice Chair and was SECONDED by Jim Reeve. MOTION CARRIED.

New Business: The Board agreed to meet again in early fall to discuss strategies for reaching the goal of being able to purchase annuities. Topics will include:

- a. Amending the current plan to allow the Board to approve a percentage of the allowed COLA;
- b. Have Deloitte provide what-if scenarios showing how the settlement projections would be affected by changing the approved COLA amounts and changing the annuity purchase rate; and
- c. Have Principal provide portfolio options for mature plans similar to ours.

Mike O'Brien MOTIONED to adjourn and was SECONDED by Jason Dilges. MOTION CARRIED at 12:30 p.m.